

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name CARO AREA DISTRICT LIBRARY	County TUSCOLA
Fiscal Year End 12-31-07	Opinion Date 3-3-08	Date Audit Report Submitted to State 5-27-08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 114	
Certified Public Accountant (Firm Name) ANDERSON, TUCKEY, BERNHARDT & ADRIAN		Telephone Number 989-673-3137	
Street Address 715 E. FRANK ST		City CARO	State Zip MI 48723
Authorizing CPA Signature Gary R. Anderson CPA		Printed Name License Number GARY R. ANDERSON 1101005446	

CARO AREA DISTRICT LIBRARY

Caro, Michigan

Report on Financial Statements

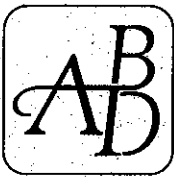
(with required supplementary
and additional information)

December 31, 2007

Caro Area District Library

Table of Contents

	<u>Page Number</u>
REPORT OF INDEPENDENT AUDITORS	
MANAGEMENT'S DISCUSSION AND ANALYSIS	<i>i-ii</i>
BASIC FINANCIAL STATEMENTS	
<i>Governmental Fund Balance Sheet/Statement of Net Assets</i>	<i>1</i>
<i>Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities</i>	<i>2</i>
<i>Statement of Fiduciary Net Assets</i>	<i>3</i>
<i>Nonexpendable Trust Fund - Statement of Revenues, Expenditures and Changes in Fund Balance</i>	<i>4</i>
<i>Notes to the Financial Statements</i>	<i>5-9</i>
REQUIRED SUPPLEMENTARY INFORMATION	
<i>Budgetary Comparison Schedule - General Fund</i>	<i>10</i>
ADDITIONAL INFORMATION	
<i>Schedule of Revenues</i>	<i>11</i>
<i>Schedule of Expenditures</i>	<i>12</i>



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March 3, 2008

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Caro Area District Library
Caro, Michigan 48723

We have audited the accompanying financial statements of the governmental activities and the major fund of the Caro Area District Library, Caro, Michigan, for the year ended December 31, 2007 as listed in the Table of Contents, which collectively comprise the Library's basic financial statements. These financial statements are the responsibility of the Caro Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Caro Area District Library as of December 31, 2007, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages I through II and page 8, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Caro Area District Library's basic financial statements. The additional information on pages 9 and 10 are presented for purposes of additional analysis and are not a required part of the basis financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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CERTIFIED PUBLIC ACCOUNTANTS

**Caro Area District Library
Management's Discussion and Analysis
December 31, 2007**

The basic financial statements on pages 1 and 2 include information that presents two different views of the Library using the modified-accrual and full accrual methods.

The first column of the governmental fund balance sheet/statement of net assets and the governmental fund statement of revenue, expenditures, and changes in fund balance/statement of activities include information about the Library's General Fund under the modified-accrual method. The modified-accrual basis focuses on current financial resources and provides a more detailed view about the accountability of the Library's sources and uses of the funds.

The adjustment column of the financial statements represents adjustments necessary to convert the modified-accrual financial statements to the Library as a Whole financial statements under the full-accrual method. The full-accrual basis focuses on long-term economic resources.

The Library as a Whole column provides both long-term and short-term information about the Library's overall financial status. The Library as a Whole statement of net assets – full-accrual basis column and the Library as a Whole statement of activities – full-accrual basis column provide information about the activities of the Library as a Whole and present a longer-term view of the Library's finances. These columns tell how these services were financed in the short-term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

As this is the first year of the Library's management's discussion and analysis report, and, consistent with Governmental Accounting Standards Board Statement Number 34, this year's report does not show data comparative with prior years. In future years, the condensed financial information section will include this information.

Condensed Financial Information

Below shows the key financial information under the full-accrual method in a condensed format. Note: Amounts and totals reported are for all Library activities – to give a complete picture.

	<u>December 31,</u> <u>2007</u>
Assets	
Current assets	\$521,294
Capital assets	<u>400,294</u>
Total assets	<u>\$921,588</u>
Liabilities	
Current liabilities	<u>\$20,288</u>
Net Assets	
Investment in capital assets – Net of related debt	400,294
Unrestricted	<u>501,006</u>
Total net assets	<u>901,300</u>
Total Liabilities and Fund Balance/Net Assets	<u>\$921,588</u>

**Caro Area District Library
Management's Discussion and Analysis
December 31, 2007**

	<u>December 31,</u> <u>2007</u>
Revenue	
Property taxes	\$427,551
Fines	84,025
Other	<u>223,858</u>
Total revenue	735,434
Expenses	514,198
Operating Transfers – out	<u>64,070</u>
Change in Net Assets	157,166
Net Assets, Beginning of year	<u>744,134</u>
Net Assets, End of year	<u>\$901,300</u>

The Library as a Whole

The Library's net assets increased by \$157,166 this year. The Library's primary sources of revenue are from property taxes and fines.

Salaries and fringe benefits continue to be the largest expense for the Library's General Fund.

The Library's Funds

The budgetary analysis of the General Fund is included on page 8, which shows the General Fund, the Library's major operating fund, including revenues and expenditures, excess of revenue over expenditures, other financing sources and fund balance.

Library's Budgetary Highlights

Over the course of the year, the Library Board amended the General Fund's budget several times. The major variance was the Capital Outlay, which exceeded the budget of \$2,500 by \$249,466.

Capital Assets

At the end of the fiscal year, the Library had \$642,470 invested in buildings and improvements, furniture, equipment, books, and videos based on the historical cost. During the year \$230,148 was spent on buildings and improvements, \$68,096 was spent on books and videos, and \$21,818 was spent on office equipment.

Requests for Information

This financial report is designed to provide a general overview of Caro Area District Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Caro Area District Library, 840 W. Frank St., Caro, MI 48723.

BASIC FINANCIAL STATEMENTS

CARO AREA DISTRICT LIBRARY
Governmental Fund Balance Sheet/Statement of Net Assets
For the Year Ended December 31, 2007

	GOVERNMENTAL FUND TYPE MAJOR FUND	GASB No. 34 Adjustments (Note 3)	Library as a Whole Statement of Net Assets- Full-Accrual Basis
	GENERAL		
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 94,839	-	\$ 94,839
Taxes Receivable	-	\$ 426,455	426,455
TOTAL CURRENT ASSETS	94,839	426,455	521,294
CAPITAL ASSETS			
Capital assets, net of accumulated depreciation		400,294	400,294
TOTAL CAPITAL ASSETS	-	400,294	400,294
TOTAL ASSETS	\$ 94,839	\$ 826,749	\$ 921,588
 <u>LIABILITIES AND FUND EQUITY</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 6,194		\$ 6,194
Accrued sick pay	14,094		14,094
TOTAL LIABILITIES	20,288	-	20,288
FUND BALANCE/NET ASSETS:			
Invested in capital assets, net or related debt		\$ 400,294	400,294
Designated	48,260	(48,260)	-
Unrestricted	26,291	474,715	501,006
TOTAL FUND BALANCE/NET ASSETS	74,551	826,749	901,300
TOTAL LIABILITIES AND FUND BALANCE/NET ASSETS	\$ 94,839	\$ 826,749	\$ 921,588

The accompanying notes are an integral part of the financial statements.

CARO AREA DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED DECEMBER 31, 2007

	GOVERNMENTAL FUND TYPES		Library as a Whole
	General Total- Modified- Accrual Basis	GASB No. 34 Adjustments (Note 3)	Statement of Net Assets- Full-Accrual Basis
REVENUES:			
Taxes	\$ 403,912	\$ 23,639	\$ 427,551
Intergovernmental revenue	9,803		9,803
Fines	84,025		84,025
Miscellaneous	214,055		214,055
TOTAL REVENUES	711,795	23,639	735,434
EXPENDITURES:			
Salaries & employee benefits	294,478		294,478
Library materials	162,041	(68,096)	93,945
Operational	50,985		50,985
Miscellaneous	2,567	516	3,083
Capital outlay	251,966	(251,966)	-
Depreciation		71,707	71,707
TOTAL EXPENDITURES	762,037	(247,839)	514,198
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(50,242)	271,478	221,236
OTHER FINANCING SOURCES (USES)			
Operating transfers - out	(64,070)		(64,070)
TOTAL OTHER FINANCING SOURCES (USES)	(64,070)	-	(64,070)
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(114,312)	271,478	157,166
FUND BALANCE/NET ASSETS - Beginning of Year	188,863	555,271	744,134
FUND BALANCE/NET ASSETS - End of Year	\$ 74,551	\$ 826,749	\$ 901,300

The accompanying notes are an integral part of the financial statements.

CARO AREA DISTRICT LIBRARY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
BALANCE SHEET
December 31, 2007

	<u>PRIVATE PURPOSE TRUST FUND</u>
 <u>ASSETS</u>	
Investments held by the Foundation	\$ 64,070
TOTAL ASSETS	<u>\$ 64,070</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Fund Balance:	
Reserved for programs	\$ 64,070
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 64,070</u>

The accompanying notes are an integral part of the financial statements.

CARO AREA DISTRICT LIBRARY
NONEXPENDABLE TRUST FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2007

REVENUES:

EXPENDITURES:

OTHER FINANCING SOURCES (USES)

Operating transfers - in

\$ 64,070

TOTAL OTHER FINANCING SOURCES (USES)

64,070

EXCESS (DEFICIT) OF REVENUE AND OTHER FINANCING
SOURCES OVER (UNDER) EXPENDITURES AND OTHER
FINANCING (USES)

64,070

FUND BALANCE - JANUARY 1

-

FUND BALANCE - DECEMBER 31

\$ 64,070

The accompanying notes are an integral part of the financial statements.

CARO AREA DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 - DESCRIPTION OF DISTRICT LIBRARY OPERATIONS AND FUND TYPES:

The Township of Indianfields and the Caro Public Schools entered into a District Library agreement on January 1, 1997 under the provisions of Act 24, Michigan Public Acts of 1989, as amended. The Board of Trustees determined that the Library shall be known as the "Caro Area District Library." The District Library district shall be comprised of all that territory in the County of Tuscola which is located in the jurisdiction limits of the Caro Public Schools, State of Michigan.

The District Library is governed by a board consisting of seven members elected at large from the district.

On January 7, 1997, the Board of the Township of Indianfields transferred ownership of the real estate located at 840 West Frank Street, Caro, Michigan to the Library. Also transferred on that date were all other assets, personal, tangible and intangible relating to the funds of the Library.

Funding will be provided by a Library District millage. In June, 2002 voters approved a renewal of 1 mill levy for the years 2002 to 2010. In June 2002, an additional .5 mill increase was approved for the years 2002 to 2010.

Reporting Entity:

In evaluating how to define the Library, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

Based upon the application of these criteria, the general purpose financial statements of the Caro Area District Library contain all the funds and account groups controlled by the District's Board as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the Library nor is the Library a component unit of another entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. There is no component unit to be included in the Library's financial report.

Adoption of New Accounting Standards:

During the fiscal period 2007, the District adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued June 1999; GASB Statement 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued June 2001, and in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the District to prepare a Management's Discussion and Analysis, government-wide financial statements on an accrual basis, and make certain changes to the footnotes.

The following table shows beginning net assets restated for the effects of implementation of GASB Statement No.34:

Fund balance at December 31, 2006 - governmental funds	\$188,863
Taxes receivable	402,816
Net capital assets (restated)	<u>152,455</u>
Restated net assets – January 1, 2007	<u>\$744,134</u>

Measurement Focus, Basis of Accounting, and Financial Statements Presentation:

The Library's basic financial statements include both the Library as a Whole and its individual fund financial statements.

CARO AREA DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Library as a Whole Financial Statements

The Library as a Whole financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

As a general rule, the effect of interfund activity has been eliminated from the library-wide financial statements.

Fund Financial Statements

The Library's individual fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

Governmental Funds:

The Library reports the following governmental funds as major funds:

General Fund - The General Fund is the Library's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Fiduciary Funds:

Fiduciary funds account for assets held by the Library in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Library under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The Library reports the following fiduciary fund:

The Private Purpose Trust Fund is accounted for using the accrual method of accounting. Nonexpendable trust funds account for assets where only the interest may be spent. These funds are not reported on the Library's financial statements.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY:

Cash and Investments – The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Investments are recorded at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds."

CARO AREA DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property Taxes – Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. The 2006 taxable valuation of the Library totaled approximately \$278,890,058, on which ad valorem taxes levied consisted of 1.4761 mills for the Library's operating purposes and for debt retirement.

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, furniture, equipment, library books, periodicals, and videos are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	7 - 50 years
Furniture and equipment	5 – 20 years
Library books and videos	5 years

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Budgets And Budgetary Accounting:

Caro Area District Library adopts a budget for the General Fund just prior to the beginning of the year. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts as shown in the financial statements are as originally adopted or as amended by the Board of Trustees. All annual appropriations lapse at fiscal year-end. The Library does not utilize encumbrance accounting.

During 2007, the Library exceed the Capital Outlay budget by \$249,466 due to a remodeling project.

NOTE 3 – RECONCILIATION OF THE LIBRARY AS A WHOLE AND THE GOVERNMENTAL FUNDS FINANCIAL STATEMENTS:

Total fund balances and the net change in fund balances of the Library's individual funds differ from net assets and change in net assets of the Library as a Whole reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current focus of the statement of the individual governmental funds' balance sheet and statement of revenue, expenditures and change in fund balance. The following is a reconciliation of fund balances to net assets and the net change in fund balances to the net change in net assets:

Total Fund Balance – Modified-accrual Basis	\$ 74,551
Amounts reported in the statement of net assets are different because:	
Property taxes receivable	426,455
Capital assets are not financial resources and are not reported in the funds	<u>400,294</u>
Total Net Assets – Full-accrual Basis	<u>\$ 901,300</u>

CARO AREA DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 3 – RECONCILIATION OF THE LIBRARY AS A WHOLE AND THE GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (Continued):

Net Change in Fund Balances – Modified-accrual Basis \$ (114,312)

Amounts reported in the statement of net activities are different because:

Property Taxes Receivable 23,639

Governmental funds report capital outlay as expenditures in the statement of activities; these costs are allocated over their estimated useful lives as depreciation:

Library books and videos	68,096
Capital outlay	251,966
Net book value of assets sold	(516)
Depreciation expense	<u>(71,707)</u>

Change in Net Assets – Full-accrual Basis \$ 157,166

NOTE 4 - CONTINGENT LIABILITIES:

Under the terms of the present personnel policy adopted by the Library Board of Trustees, the Board is required to pay each regular employee their accumulated vacation leave time, up to 25 days, at 100% of current pay upon termination.

The Library has elected to be treated as a reimbursing employer for unemployment tax purposes. Any employment benefits paid to the Library employees by the Michigan Unemployment Fund must be reimbursed by the Library on a dollar for dollar basis. The expense is recognized when the district becomes liable to the State for benefits paid.

NOTE 5 - DEPOSITS AND INVESTMENTS:

The Library's cash and cash equivalents consist of a checking account.

Credit Risk- State statutes authorize the Library to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Library is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Library has no investment policy that would further limit its investment choices.

Concentration of credit risk – The Library has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk- Deposits- In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. The carrying amount of the Library's deposits was \$94,839 and the bank balance was \$94,876 all of which was covered by federal depository insurance; thus, no amount was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk- Investments- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments. State law does not require and the Library does not have a policy for investment custodial credit risk.

The Library had no investments at December 31, 2007.

CARO AREA DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 – MONIES HELD BY FOUNDATION:

During 2007, the Library sold their shares of stock for a gain of \$53,055. The total proceeds of \$64,070 were transferred to the Tuscola County Community Foundation (the "Foundation"). The Library and the Foundation are unrelated entities. The money earned from the investment will be used on an as-need basis, by the discretion of the Board, for Library operating expenses and projects. The Board retains control of the funds; however, the monies are permanently invested with the Foundation. The Foundation, as custodian of such funds, continues to report the funds as assets of the Foundation. The Library reports the funds in a Private Purpose Trust Fund at their cost basis which approximates their fair market value.

NOTE 7 – CAPITAL ASSETS:

Capital asset activity of the Library was as follows:

	Balance 12/31/2006	Additions	Disposals and Adjustments	Balance 12/31/2007
Capital assets being depreciated				
Buildings and improvements	\$ 8,255	\$ 230,148	\$ -	\$ 238,403
Library books and videos	249,234	68,096	44,259	273,071
Furniture and fixtures	21,189	-	-	21,189
Office equipment	89,039	21,818	1,050	109,807
Total capital assets, being depreciated	367,717	320,062	45,309	642,470
Less accumulated depreciation for:				
Buildings and improvements	2,819	8,827	-	11,646
Library books and videos	147,413	47,805	44,259	150,959
Furniture and fixtures	10,481	1,613	-	12,094
Office equipment	54,549	13,462	534	67,477
Total accumulated depreciation	215,262	71,707	44,793	242,176
Total net capital assets	<u>\$ 152,455</u>	<u>\$ 248,355</u>	<u>\$ 516</u>	<u>\$ 400,294</u>

Depreciation for the fiscal year ended December 31, 2007 amounted to \$71,707. The Library determined that it was impractical to allocate depreciation to the various library activities as the assets serve multiple functions.

NOTE 8 - RISK MANAGEMENT:

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library carries commercial insurance to cover any losses that may result from the above described activities.

NOTE 9 – DEFINED CONTRIBUTION PENSION PLAN:

The Library established a SIMPLE IRA plan on September 23, 2002, which covers all qualifying employees of the Library. Under the plan, the Library contributes an amount equal to two percent (2%) of the qualifying employee's wages to the plan on behalf of the employee. All amounts contributed are immediately and fully vested with the employee. Total contributions under the plan were \$4,313 during 2007.

NOTE 10 – DESIGNATED FUND BALANCE:

The fund balance in the General Fund has been designated by the Board for the purpose of technology and capital expenditures, in the amount of \$48,260.

REQUIRED SUPPLEMENTARY INFORMATION

CARO AREA DISTRICT LIBRARY
Required Supplementary Information
General Fund
Budgetary Comparison Schedule
For the Year Ended December 31, 2007

	BUDGET			VARIANCE- FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Taxes	\$ 394,559	\$ 394,559	\$ 403,912	\$ 9,353
Intergovernmental revenue	9,674	9,674	9,803	129
Fines	70,000	70,000	84,025	14,025
Miscellaneous	36,000	36,000	214,055	178,055
TOTAL REVENUES	<u>510,233</u>	<u>510,233</u>	<u>711,795</u>	<u>201,562</u>
EXPENDITURES				
Salaries and employee benefits	311,948	287,948	294,478	(6,530)
Library materials	145,585	163,985	162,041	1,944
Operational	48,700	53,800	50,985	2,815
Miscellaneous	2,000	2,000	2,567	(567)
Capital outlay	2,000	2,500	251,966	(249,466)
TOTAL EXPENDITURES	<u>510,233</u>	<u>510,233</u>	<u>762,037</u>	<u>(251,804)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(50,242)	(50,242)
OTHER FINANCING SOURCES (USES)				
Operating transfers - out	-	-	(64,070)	(64,070)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(64,070)</u>	<u>(64,070)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	-	(114,312)	(114,312)
FUND BALANCE - Beginning of Year	<u>188,863</u>	<u>188,863</u>	<u>188,863</u>	
FUND BALANCE - End of Year	<u>\$ 188,863</u>	<u>\$ 188,863</u>	<u>\$ 74,551</u>	<u>\$ (114,312)</u>

ADDITIONAL INFORMATION

CARO AREA DISTRICT LIBRARY
GENERAL FUND
SCHEDULE OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007

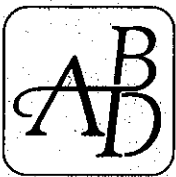
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Taxes:			
Current property taxes	<u>\$ 394,559</u>	<u>\$ 403,912</u>	<u>\$ 9,353</u>
Total Taxes	<u>394,559</u>	<u>403,912</u>	<u>9,353</u>
Intergovernmental:			
State aid	<u>9,674</u>	<u>9,803</u>	<u>129</u>
Total Intergovernmental	<u>9,674</u>	<u>9,803</u>	<u>129</u>
Fines:			
Penal fines	<u>70,000</u>	<u>84,025</u>	<u>14,025</u>
Miscellaneous Revenues:			
Interest & dividend income	13,000	15,370	2,370
Gifts	3,000	117,221	114,221
Miscellaneous income	14,000	23,727	9,727
Gain on sale of stock		53,055	53,055
Video rentals	<u>6,000</u>	<u>4,682</u>	<u>(1,318)</u>
Total Miscellaneous	<u>36,000</u>	<u>214,055</u>	<u>178,055</u>
TOTAL REVENUES	<u>\$ 510,233</u>	<u>\$ 711,795</u>	<u>\$ 201,562</u>

See the accompanying notes.

CARO AREA DISTRICT LIBRARY
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES:			
Salaries & Employee Benefits:			
Salaries	\$ 232,529	\$ 247,112	\$ (14,583)
Employee benefits	55,419	47,366	8,053
Total Salaries & Employees Benefits	<u>287,948</u>	<u>294,478</u>	<u>(6,530)</u>
Library Materials:			
Books	50,334	41,296	9,038
Periodicals	7,700	9,294	(1,594)
Supplies	19,300	20,007	(707)
Contract fees	75,151	73,938	1,213
Electronic materials	2,500	2,341	159
Videos	9,000	15,165	(6,165)
Total Library Materials	<u>163,985</u>	<u>162,041</u>	<u>1,944</u>
Operational:			
Insurance	8,000	8,264	(264)
Utilities and telephone	21,000	20,410	590
Repairs and maintenance	20,000	17,540	2,460
Postage	2,200	2,200	-
Programming	900	922	(22)
Professional development	1,700	1,649	51
Total Operational	<u>53,800</u>	<u>50,985</u>	<u>2,815</u>
Other Miscellaneous	<u>2,000</u>	<u>2,567</u>	<u>(567)</u>
Capital Outlay	<u>2,500</u>	<u>251,966</u>	<u>(249,466)</u>
TOTAL EXPENDITURES	<u>\$ 510,233</u>	<u>\$ 762,037</u>	<u>\$ (251,804)</u>

See the accompanying notes.



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA
Valerie J. Hartel, CPA
Terry L. Haske, CPA
Jamie L. Peasley, CPA
Timothy Franzel

.....
Robert L. Tuckey, CPA

March 3, 2008

To the Members of the Board
Caro Area District Library

In planning and performing our audit of the financial statements of Caro Area District Library as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Caro Area District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. During the course of our audit, we observed the following significant deficiency:

Segregation of Duties

Due to the limited number of people, many critical duties are combined and given to the available employees/board members. To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible. We recommend the library segregate duties whenever possible.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

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Members of the Board
March 3, 2008
Page 2

After considering the qualifications of the accounting personnel of Caro Area District Library, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the Library, but they do not have the qualifications and abilities to generate financial statements, including the required footnotes, in accordance with accounting principles generally accepted in the United States of America.

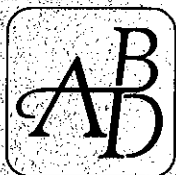
This communication is intended solely for the information and use of management, Caro Area District Library, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service to the Caro Area District Library and look forward each year to continuing our relationship. The cooperation extended to us by your staff throughout the audit was greatly appreciated. Should you wish to discuss any item included in this letter further, we would be happy to do so.

Very truly yours,

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt & Doran, P.C.
Certified Public Accountants



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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Timothy Franzel

Robert L. Tuckey, CPA

March 3, 2008

To the Members of the Board
Caro Area District Library

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Caro Area District Library for the year ended December 31, 2007, and have issued our report thereon dated March 3, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 18, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Caro Area District Library are described in Note 2 to the financial statements. As described in Note 2 to the financial statements, the Caro Area District Library changed its accounting policies related to full accrual financial statements by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34, in 2007. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in Note 2. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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Members of the Board
March 3, 2008
Page two

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 18, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Members of the Board and management of Caro Area District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants